Developing Country Studies
ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.4, No.8, 2014
www.iiste.org

Achieving Poverty Reduction Through Microfinance: Evidences From the Philippines

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Abstract

This research work sets out to evaluate and compare the effectiveness of two microfinance interventions implemented in the Philippines. To achieve this goal, the study examines two microfinance programs one implemented by the state (Self Employment Assistance Kaunlaran) and the other by a non-profit UPLIFT (Urban Program for Livelihood Finance Training). The analysis focuses mainly on ascertaining which of the two programs that has contributed most to the improvement of the lot of its clients. The paper also compares clients across three groups: new, mature and exit clients in other to ascertain how the programs affect clients at different stages of the program. Furthermore, this work lays emphasis on governance and empowerment as the two key factors that contribute to a more effective and efficient delivery of microfinance services. The study which was conducted in Caloocan City and Navotas City reveals that most microfinance clients are females. It further shows that most of the microfinance clients in the SEA-K and UPLIFT programs use their loans for either smoothing consumption or reinvestment in their businesses. The findings of this research work also identifies interest rates, small size of loans, short loan repayment cycles, and very frequent group meeting as the enabling and disabling factors that affect successful graduation of microfinance clients from microfinance programs.

Keywords: Poverty Reduction, Microfinance, Governance, Empowerment

1. Introduction

Improving access to credit is one of the many ways to enable poor people improve their productivity and lift themselves out of poverty. In recent times, microfinance has increasingly gained attention as a powerful instrument in the fight against poverty and as such is referred to as the 'newest silver bullet for poverty'. (Karnani 2007; Latifee 2003) This growing popularity of microfinance has caught the attention of development practitioners and non-practitioners alike. This includes: governments, donors, development agencies, banks, universities, consultants, philanthropists, who have all come to realize that microfinance can serve as a catalyst in cutting poverty especially in the developing world.

In the field of public administration, microfinance and poverty alleviation are two important public policy initiatives that are geared towards the improvement of the lot of the less privileged members of the society. In light of this, public administration as a scholarly discipline and profession ensures that the processes and contents of public policies gets to those who need them most in an effective and empowering way. This approach to the delivery of public services espoused by public administration often involves the interplay of diverse sectors of the society: the government, civil society and the private sector. However, this does not exclude the people who are the ultimate beneficiaries of these initiatives.

The above assertions concretizes governance as a core component and approach that is very crucial in fostering the enabling environment needed for public policies to take root. Against this backdrop, microfinance is deemed to be relevant in public administration as a social and economic development strategy that aims to promote participation and empowerment. The state is at the center of this effort as it ought to create the enabling environment for other stakeholders through the following channels: adequate budgetary support, strong policy framework and promotion of the principles of good governance.

The Philippine experience shows that the provision of credit was largely done through state run agencies in the past before the recent transition to a market oriented approach of disbursing credit. The colossal failure of the 'direct credit programs' of the state and the liberalization of markets led to a rapid increase in the number of commercial banks, NGO's, rural banks, credit unions and cooperatives, all trying to respond to the needs for the vulnerable and marginalized. Also, the Philippines has also responded through the passage of laws and policies such as the Social Reform Agenda and Poverty Reduction Act of 1997 (Republic Act of 8425) and the Medium Term Philippine Development Plan (MTPDP 2004-2010).

In assessing the UPLIFT (an NGO supported) and SEA-K (a government financed) microfinance institutions, poverty in the Philippines will be viewed from the overall context as a major development problem facing the country. This study also compares microfinance clients across three groups: new, mature and exit clients. As social and enterprise development institutions, SEA-K and UPLIFT were set up with the core objective of bringing poor Filipinos from the fringes to mainstream of development in the country. It argues that reducing poverty through the provision of small loans requires strong political and governance structures. This research work recognizes that addressing poverty through the provision of microfinance is a multi-dimensional problem that requires the combination of financial and non-financial services to the poor. It is worth pointing out from the very outset that while microfiannce is an important tool in poverty reduction, it is neither a panacea nor a magic bullet.

2. Statement of the Problem

In the Philippines, the practice and provision of microfinance to the poor is replete with catastrophic failures as well as success stories. In light of all these, this study aims to ascertain the extent of impact of microfinance on the target population especially among those who are new in the program (new clients), been in the program for a while (mature clients) and those who have left the program (exit clients)- albeit learning from the empirical data of only two cases and corroborating these with some literatures and other knowledge and wisdom on microfinance and governance of poverty.

Why then should one be concerned about the impact of microfinance on its clients? This is simply because the success of any microfinance initiative can only be gauged by its ability to lift the vast majority of its clients out of poverty. This is very much dependent on the program’s ability to address the various multi-dimensional poverty indicators and empower its beneficiaries, lead to improved quality of service delivery, provide greater access to credit and client satisfaction. All of these impinge on the program’s effectiveness and ability to reduce poverty to the barest minimum and impacts on the recipients’ lives at various levels: the client level, household level, enterprise level and the community level.

The lessons from this study also delves into the administration of poverty while answering the following specific questions:

1. What are other contributory factors that can help to explain the persistence of poverty?

2. To what extent do the financial and non-financial services provided by MFI’s lead to poverty reduction?

3. Does increased access to credit translate into poverty reduction?

4. What are the enabling factors that allow microfinance clients to move from:

   (a) “new” to “mature” clients

   (b) “mature” to “exit” clients

5. What are the disabling factors that deter clients from moving from:

   (a) “new” to “mature” clients

   (b) “mature” to “exit” clients

6. What lessons might be drawn from the cases and the literatures on microfinance that would help build or enrich some concepts in administering poverty and public administration?

3. Objectives of the study

The researcher looks at microfinance from a macro perspective in order to ascertain if it is really an effective tool that reduces poverty. The study also highlights the areas where microfinance has made positive and negative impacts on the lives of the poor by using the cases of UPLIFT and SEA-K microfinance interventions. Through an extensive review of literature, the study sheds light on the gains as well as misconceptions about microfinance as one out of many tools that can be used in poverty reduction.

The specific objectives of this study are as follows:

1. To evaluate other contributory factors that can help explain the persistence of poverty

2. To analyze the extent to which the financial and non-financial services provided by MFI's leads to poverty reduction

3. To assess if increased access to credit translates into poverty reduction

4. To identify the enabling factors that allow clients to move from:

   (a) "new" to "mature" clients

   (b) "mature" to "exit" clients

5. To identify the disabling factors that deter clients from moving from:

   (a) "new" to "mature" clients

   (b) "mature" to "exit" clients

6. To highlight the lessons that might be drawn from both the cases and literature on microfinance that would help build or enrich some concepts in administering poverty and public administration

4. Literature Review

4.1 The Meaning of Microfinance

The failure of conventional development strategies that promote large-scale interventions and the sorry economic statistics emanating from several developing countries especially since the early 1980s, have further heightened the call for a rethink of some the past development strategies. Given this backdrop, micro and small-scale enterprises that encourage self-employment, women empowerment, and rural and urban poverty reduction increasingly became alternative models for achieving sustainable development and economic growth. (Islam, 2007) Although microcredit has been in existence in for centuries in different parts of the world, the idea as we know it today can be traced to Muhammad Yunus the founder of the Grameen Bank. (Siebel 2003)

In contemporary development discourse, microcredit and microfinance are two popular buzzwords that connote different things. While microcredit primarily involves the provision of credit or small loans to the poor, microfinance is a broader concept as it includes the provision a wider range of services such as loans, savings, insurance services and payment services. (Ledgerwood 1999; Elahi 2004) Thus, microfinance is also defined as "the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions". (ADB, 2000)

In the Philippines, the provision of microfinance as we know it today was pioneered by cooperatives and rural banks in the early 1900's. In the 1970's and 1980's, government financial institutions and development banks that provided most subsidized credit joined the band wagon. In recent times, the delivery of microfinance to the poor is largely done through a market oriented policy with core aim of promoting sustainability of MFI's. However, a report by the Asian Development Bank states that commercialization of MFI's in the Philippines has been disappointing in spite of the plethora of MFI's that have mushroomed over the years. The report identified two main constraints: internal constraints and constraints in the operating environment (Charitonenko 2003)

Lastly, in discussing the meaning and tracing the various historical and cultural factors that shaped the evolution of microfinance here in the Philippines and elsewhere, microfinance should be viewed as a tool that was born out of the need to eliminate the gap that exists between the rich and the poor. In this respect, the rise and evolution of microfinance offers a good perspective by which one can appreciate how development is driven from the bottom.

4.2 Poverty Reduction and Limitations of Microfinance in the Philippines

Poverty reduction is the primary objective of most development agencies from the local to the international ones. However, while poverty and its reduction through microfinance and other channels is recognized as an intractable development challenge, there is an endless debate about how and who should be involved in categorizing poverty. While these debates are welcome, there is a consensus that the causes of poverty are complex and intertwined. There is also an agreement that workable and practical solutions must be taken to address the problem.Thus, poverty is a multi-dimensional phenomenon because it is characterized by so many interlocking and interwoven factors such as lack or limited access to education, health care, infrastructure, food, shelter, humiliation, powerlessness, dependency and voiceless (ADB 1999; Narayan et al 2000)

The Philippines is widely regarded as a laggard when it comes to poverty reduction because it has reduced poverty at a leisurely gait of 0.47 percent per year which is slower than those of neighboring countries like Cambodia, Indonesia, Thailand, Vietnam and Lao (ADB 2009) Also, empirical evidence from government agencies and independent think tanks shows that poverty has worsened in the country. The NSCB data shows that poverty rose to 32.9 percent in 2006 from 30 percent in 2003 (NSCB 2006) Ibon foundation and the Social Weather Stations also averred that the percentage of Filipinos that consider themselves as poor rose from 67.1 percent to 71.4 percent and 50 percent to 53 percent respectively. (Ibon foundation 2009; SWS 2009)

In terms of global poverty, the new figures from the World Bank shows that global poverty reduction since 1981 has not been deep rooted and far reaching. Using the $1.25 yardstick about 1.21 billion people are living below the poverty line while 1.91 billion people are living below $2 a day by 2015. (World Bank 2012) Given that the reduction in global poverty has been rather sluggish, even the promoters of microfinance do not disagree that microfinance alone is not enough to reduce poverty. Therefore, "microfinance is not the solution to global poverty, but neither is health, or education, economic growth. There is no one single solution to global poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerfule tool" (Daley-Harris 2007:1) Even the main proponent of this idea Muhammad Yunus agrees that "microcredit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people's potential, microcredit is an essential tool in our search for a poverty free world" (Yunus 2007:1)

Even as microfinance holds a lot of promise in reducing poverty, questions continue to emerge about its effectiveness in reducing poverty. Some of these criticisms are as follows. First, most critics question the ability of MFI's to strike a balance between two competing incentives. This is because while MFI's must strive to fulfil their mission of poverty reduction, they also have to chareg interest rates to stay afloat. This is a source of controversy as some critics consider these interest rates as being too high (Fernando 2006; Hughes et al 2000) Second, concerns have also been raised that an increase in the number of MFI's results in cuts in government expenditure in public safety net programs (Neff 1996) Third, while MFI's claim to empower their clients who are mostly females, critics argue that measuring empowerment is difficult and studies that show empowerment are often case studies that apply specific contexts. (Leach et al 2002; Karlan et al 2007) Last, microfinance critics also argue that microfinance is not effective as a country like Bangladesh where microfinance started still remains a poor country. (Surowiecki 2008)

The critical question at the heart of the discourse on poverty reduction through microfinance is why does poverty persist in spite of the local and international solutions peddled? On the one hand, some schools of thought contend that poverty is primarily an economic problem that requires economic growth as a solution. On the other hand, poverty is perceived as a manifestation of social and economic inequities that has bedeviled the Philippines since its birth as a nation state. In between these two groups are individuals and groups who believe that reforms are needed to bring the common man from the fringes to the mainstream of the society. While there are no quick fixes to poverty, the views showcases the stration and obfuscation that surround poverty policy in the Philippines which requires a mix of the different strands of opinions for poverty to be reduced to the barest minimum.

5. Conceptual framework

Microfinance is defined as programs that extend small loans to very poor people for self employment projects that generate income, allowing them to care for themselves and their families (Microcredit Summit Campaign Report, 2002). Though microfinance is believed to address only the income dimension of poverty, this framework posits that the provision of microfinance to the poor could address the multi-dimensional aspects of poverty. This is because microfinance includes loans, savings insurance, transfer services and other financial services and products. This theoretical framework illustrates that microfinance provides two main services namely financial and non-financial services. The financial services that microfinance provides are as follows: credit, savings, leasing, insurance and money transfer (micro money transfer) to the poor while the non-financial services includes: education, business advisory services, monitoring of business activities, training skills, empowerment, self reliability, self confidence and increase in knowledge.

The common goal of MFI's whether a government supported or NGO's supported is to reduce poverty to the barest minimum. This interacts with three key variables: (a) quality of service rendered by an MFI determines the kind of clients it attracts, whether they will be able to successfully graduate from the program (b) credit accessibility is all about how loan terms and conditions such as collaterals, interest rates, size of loan, mode of payment and how they are associated with impact. (c) client satisfaction is indicative of the degree to which services and products satisfies clients preferences since they are the ultimate beneficiaries of microfinance programs. All of this in turn translates into tangible outcomes such as improvements in livelihood and employment, empowerment, improved health care, education etc, all of which are central to poverty reduction.

Governance and empowerment are at the heart of this framework since government policies geared towards poverty reduction do not exist in the vacuum. Governance ensures that the process of decision making is implemented through a wide range of actors such as the government, private sector and civil society. Thus, to ensure that poverty reduction efforts reach their intended clients the various stakeholders must imbibe the principles of good governance: participation, consensus oriented, accountability, transparency, responsiveness, efficiency and effectiveness, equity and inclusiveness and the rule of law (UNESCAP 2006; UNDP 1999) Thus, strong governance framework is one the critical factors responsible for the success or failure of microfinance institutions. It is, therefore, imperative for all stakeholders to give utmost attention to this critical issue.

Since empowerment is associated with breaking the gender barriers that women face which hinders access to education, health employment etc. Empowerment especially as it relates to women who mostly the client's of MFI's is a multidimensional process that helps people take charge of their lives. The basic features of empowerment can be summarized as follows: access to information, services, basic resources; freedom to express needs and interests; awareness of rights; participation in processes, decision-making; choice of self-determination-individual and collective; decision-making power; capacity to challenge decisions; hope; confidence; connection and relationship and autonomy and control. (Burkett, 2007)

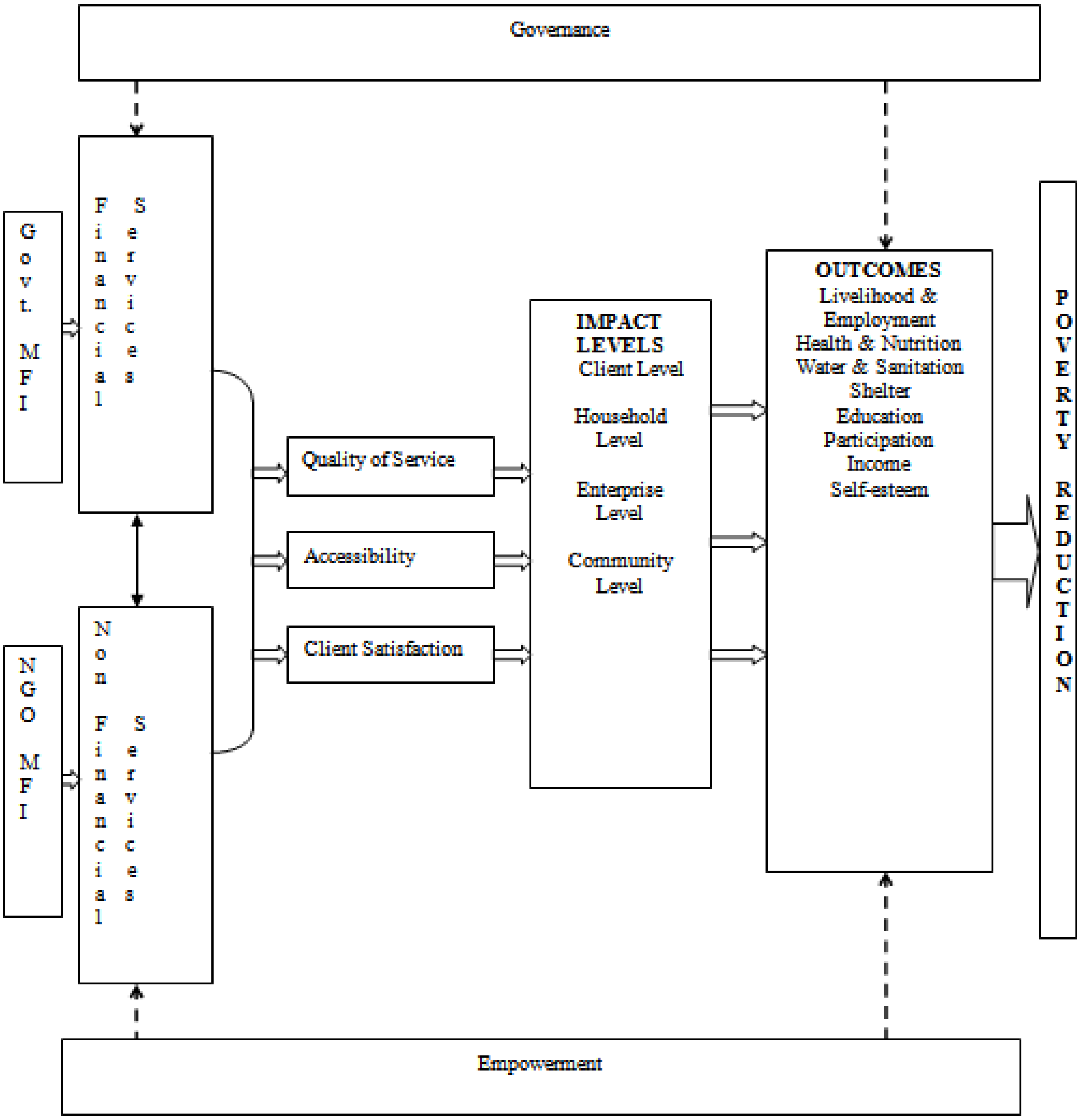

Figure 1 Conceptual Framework

6. Microfinance Intervention Cases in the Philippines

6.1 Profile of SEA-K MFI

For several decades the sorry human development indices emanating from the Philippines has earned it such sobriquets as the ‘sick man of Asia’. (Kind, 2000) This is largely because of failure of the country to achieve broad based growth and pro-poor growther needed to wipe out widespread poverty in both rural and urban areas. Given this troubling scenario, the government has responded over the years through a barrage of policies such as agriculture, education, infrastructure, credit assistance and livelihood projects, all focused on cutting poverty. Most of these programs implemented over the years included some element of livelihood or microfinance as a critical component of the program. One of such programs is the Self Employment Assistance Kaunlaran.

The SEA-K is a community based credit assistance program utilizing people's organizations called SEA Kaunlaran Associations (SKAs), with at most five members, as credit conduits. It targets low income communities nationwide and there may be multiple SKAs in one community.

The program has two levels of operation, Level I and Level II. The Level I program prepares target communities through capability building interventions that enable the beneficiaries to manage their activities themselves with little supervision by the SEA-K personnel. In Level II, individuals and groups who have successfully repaid their loans in Level I, are organized and upgraded to undertake continued enterprise expansion. The program integrates values formation and capacity building interventions to help manage their projects effectively. The capacity building program is done in partnership with the LGU's in coordination with other government and other stakeholders such as NGO's and private sector.

6.2 Profile of the UPLIFT MFI

The Urban Program for Livelihood, Finance and Training (UPLIFT) is a social enterprise institution that started under the name "Neighborhood Business Association" by Inter-Aide of Finance (a French NGO) to provide loans, savings and other capacity building programs to the urban poor to enable them improve their economic condition.

The program uses a holistic approach in its delivering of credit and other services. These are as follows: The non-financial services provided by UPLIFT are largely training programs for the partners (clients) to better manage their money. These are as follows: (a) *Pulongs* which aims to develop the entrepreneurial skills of the partners to aid them in their businesses (b) Business Developments Skills Training (c) Access to Company Employment (ACE) that supports the youths find jobs in the formal sector (d) *Serbisyong Pangkalusugan*, which is implemented in partnership with Philippine Health Insurance Corporation to help members become members of Philhealth and health insurance services; and (e) *GabayBuhay,* which is a publication for the UPLIFT clients that provides information on a wide range of topics that will help them in their businesses.

7. Methodology

The research utilized the case study and survey approaches in gathering data that formed part of this study. The survey approach was the primary approach used in the study because it attempts to be fairly representative of the population being studied and results obtained can also be generalized. However, the case study approach complemented the survey approach since not all dimensions of poverty can be well captured by numbers alone. Since poverty reduction is the primary mission of most microfinance institutions, samples for this study were taken from the cities of Navotas City and Caloocaan because of their high incidence of poverty. The UPLIFT clients were selected from Navotas City while the SEA-K clients were selected from Calocaan City.

The study also utilized simplified random sampling and stratified sampling in the selection of microfinance clients from Navotas City and Caloocan City. The respondents that took part in this study were selected from twelve SEA-K barangays in Caloocan City and fourteen barangays that are covered by UPLIFT in Navotas City. This eventually led to the selection of the 278 clients that took part in this study.

ISSN 2224-607X (Paper) ISSN 2225-0565 (Online)
Vol.4, No.8, 2014

Table 1 Profile of Cities and Municipalities in the National Capital Region

City/Municipality	**Population**	**Poverty Incidence**	**No. of Microfinance Institutions**
City of Manila	1,660,714	4.89	33
City of Mandaluyong	305,576	2.96	4
City of Marikina	424,610	2.72	7
City of Pasig	617,301	3.62	21
Quezon City	2,679,450	3.03	35
City of San Juan	125,338	1.50	3
Caloocan City	1,378,856	**5.16**	9
City of Malabon	363,681	5.10	6
City of Navotas	245,344	**7.41**	7
City of Valenzuela	568,928	4.40	5
City of Las Piñas	532,330	3.40	4
City of Makati	510,383	1.86	19
City of Muntinlupa	452,943	3.98	7
City of Parañaque	552,660	2.03	4
Pasay City	403,064	3.73	4
Taguig City	613,343	5.23	4
Pateros	61,940	4.13	2
National Capital Region	**11,553,427**		

Source: National Statistics Office 2007 Census of Population , National Anti-Poverty Commission MFI Directory 2007,NSCB City and Municipal-Level Small Area Poverty Estimates 2003

Table 2 Caloocan City Barangay Profile (SEA-K)

Barangay	**Population**	**No. Of Household**	**Household Size**	**Land Area (Hec.)**
165	20,358	4,793	4.25	110.76
166	13,365	3,105	4.30	170.28
167	19,142	4,309	4.44	179.20
168	19,675	4,200	4.68	309.20
169	3,961	756	5.24	57.72
170	8,696	1,991	4.37	42.56
171	33,152	7,158	4.63	537.48
172	15,965	3,246	4.92	136.84
173	9,715	2,011	4.23	96.58
174	14,778	3,114	4.75	152.64
175	34,813	7,235	4.81	266.36
177	50,938	10,683	4.77	188.08

Source:Community Relations Office, City of Caloocan

Table 3 Navotas City Barangay Profile (UPLIFT)

Barangay	**Population**	**No. Of Household**	**Population Density (in Has.)**	**Land Area (Hec.)**
San Rafael Village	2,695		69.10	39
North Bay Blvd. South	70,588		277.91	254
North Bay Blvd. North	14,059		216.29	65
Bangculasi	6,994		466.27	15
Bagumbayan South	3,754		750.80	5
Bagumbayan North	3,035		758.75	4
Novatas West	7,851		1,121.57	7
Navotas East	2,248		374.67	6
Sipac-Almacen	11,232		416.00	27
San Jose	2,983		323.70	71
Daanghari	16,274		625.92	26
San Roque	17,678		654.74	27
Tangos	31,663		1,021.39	31
Tanza	19,349		38.70	500

Source: Navotas City Government Official Website 2009

From the list of clients that were provided by the MFIs, stratified sampling was used in selecting the mature and new clients. For each cluster, simple random sampling was used in selecting the required sample size. Using this sampling technique ensures that each member of the sub-groups that forms part of this study were equally represented. The inclusion of ex-clients in this study validates the results of the study, since most studies of similar nature exclude such groups.

As mentioned earlier 12 SEA-K and 14 UPLIFT barangays were included in the survey. Using the sample size estimation for proportions, the sample size were drawn as:

$$n = \frac{Z\text{-}PQ}{d^2}$$

Where n=sample
Z=reliability coefficient based on level of confidence
P= estimate of frequency of level
Q= 1-P
d= permissible error

The calculated sample size led to the selection of 146 SEA-K clients (121 new/mature and 25 exit clients); and 132 UPLIFT clients (105 new/mature clients & 27 exit clients). All of which led to the selection of a total of 278 clients.

To ensure proportionality of sampled clients to population size of the barangay, systemic random sampling was employed by determining the *K* value. For each barangay, finding the *K* value lessened the occurrence of selection bias.

As is the case in most social science research, the sample for this study was primarily composed of two groups: "treatment group" and the "control group" which was compared along different impact indicators to identify if there are differences. The control group was used as a baseline measure while the treatment group was compared with the control group. The target population for the treatment group was primarily composed of clients/beneficiaries who got their first credit/loan at least 12 months prior to this survey. The control group was comprised of new clients/beneficiaries who have received their first loan but are yet to complete their first loan cycle.

The main challenge with conducting a study of this nature is finding a valid counterfactual to compare the treatment group with. Since this research was largely ex-post (evaluating a program already in progress) without a baseline data to compare the quality of life (poverty incidence) of the clients prior to the microfinance intervention, the study combined the AIMS/SEEP and Coleman's microfinance assessment models. (AIM/SEEP 2005; Coleman 1999) This study is unique because it includes the exit clients groups as suggested by the AIMS/SEEP manual, who were left out in Coleman's study. All of this led to the categorization of UPLIFT clients into three groups.

Table 4
Description of Clients

Type of client	Description
New clients	Clients who newly joined the program and have received their first loan but are yet to repay the full loan within the four month maximum loan cycle for UPLIFT clients and one year for SEA-K clients. This group of clients will be chosen based on the assumption that their living standards have not yet been affected by the microfinance program.
Mature or Existing clients	Those who have been in the program for at least 1 year or have availed of loans for at least 3 loan cycles.
Exit clients	Individuals who no longer borrow from the microfinance institution.

A sample that is representative of the population was randomly sampled through the use of table of random numbers. The procedure was repeated until the required number of respondents is selected. This method ensures adequate selection of a sample that is representative of the population. Stratified random sampling with proportional allocation was used in this study using "barangay" as the stratum. After determining the sample size per barangay, simple random sampling was used to select the particular samples. Computer-generated random numbers was used to identify the particular sample.

The survey questionnaire was translated into the local language (tagalog) for easy comprehension by the clients as suggested by UPLIFT and SEA-K managment. Also, the questionnaires were pre-tested among a small group of the target population before final administration.

8. Results and Discussion

Looking at the distribution of the survey respondents, there are more females than males, with majority of the clients in both programs within the productive age bracket and also a majority of the clients married. The highest percentage of clients 92.3% are found among the new clients in the SEA-K program while the vast majority of the UPLIFT clients are located among the exit clients (92.9%). Thus, MFI's target mostly females because of the following reasons: women are more likely to be credit constrained than men and women also constitute the majority of the poor than males and are therefore targeted by anti-poverty programs. (Moghadam, 2005) By targeting female clients MFI's intend to break the gender barrier which is one of the causative factors of poverty. The findings of the study seems to be in line with that of another study which states that microfinance often target women because female clients represent eighty-five percent of the poorest microfinance clients reached (Daley-Harris, 2007)

Education is a key determinant of well being as it provides individuals with knowledge and skills that can be used to better their lot. In terms of educational attainment and occupation, all the clients in both programs are literate and most are self employed in non-farm enterprises. Most of the clients in both programs completed their high school education. In the SEA-K program 53.8 percent of the new clients, 45.4 percent of the mature clients and 48 percent of the exit clients have high school diplomas. High school leavers also top the list in UPLIFT as 55.6 percent of the new clients, 56.1 percent of the mature clients and 25 percent of the exit clients indicated that they completed their high school education.

The amount of loan borrowed largely influences household expenditure in providing essential services, education, housing, health and educational attainment etc as individuals with smaller amounts of loan will tend to spend less on the provision of these essential services. The data on the amount of loan availed of so far by MFI clients suggests that the majority of the new SEA-K clients borrowed between Php 5,000-10,000, 16,000-20,000 for the new clients and Php 5,000-10,000. Also, individuals who borrowed between Php 5,000-10,000 constitute the majority in all three categories in the UPLIFT program.

Clients that have between 2-5 family members constitute a majority in the SEA-K and UPLIFT programs.The research also indicates that the vast majority of the clients have lived in their communities for at least 10 years. The number of years lived in barangay (s) acts as a proxy for measuring social capital among the microfinance clients. Social capital refers to "the quality of human relations within some well defined social group that enables members of this group to act in cooperation with one another for achieving mutual benefits." (Krishna, 2006) This illustrates that in communities where people are more cooperative and care for each other's interests, they are bound to achieve common goals than those where rancor and discord is the order of the day. This might have played a crucial role in the selection of the clients by the MFI's and group formation among the clients as most of them have lived in their barangays long enough to know who to be trusted or not in doing business.

The organizational structure, financial resources and human resources available to an MFI does not necessarily amount to better delivery of services and greater poverty reduction. This is depicted in the case of SEA-K that has more financial resources and manpower but yet has not reduced poverty more than the UPLIFT program.

Local governments should be at the forefront of any effort to reduce poverty to the barest minimum since they are the closest to the people. However, in terms of convergence of efforts in the delivery of microfinance, the SEA-K that is government funded partners more with the Local Government Units (LGU's) and other relevant stakeholders when compared to the UPLIFT program.

The present policy and institutional framework of the Philippine government shows that while the government has a plethora of laws and programs geared towards the promotion of the microfinance sector, constant change in policies and weak implementation of policies seems to be reversing past gains and in fact an impediment to poverty reduction.

The findings of the study indicates that microfinance is one out of many tools that provides a way for the economically active poor to lift themselves out of poverty which largely largely leaves out the 'core poor' from participation in microfinance programs.

The findings of the survey shows that not all clients in both an NGO and government supported programs who have successfully graduated from the program as exit clients have improved incomes, jobs, education, health care. The main reasons for this includes the following: small size of loan, short loan cycle, high interest rates and problems with group members.

When it came to the perception of the clients on programs impact on the overall well being and poverty level of the clients, improvements in income, savings, diet, health care, education, the findings seems to be mixed. This is because the overall mean of impact shows that the new and mature clients in the SEA-K agreed that that there was positive change while the exit clients disagreed. In the UPLIFT program there was positive change in the lives of the new and exit clients while there was not much improvement in that of the mature clients.

An overwhelming majority of the clients in the SEA-K and UPLIFT programs stated that their economic activity through microenterprise contributes to the respect from their spouse as well as greater decision making.

The findings of the study also shows that most of the microfinance clients in the SEA-K and UPLIFT use their loans for either smoothing consumption or reinvestment in their business enterprise.

Those surveyed in both programs identified lower interest rates compared to other programs as what they like most about their programs. In terms of dislikes, the two largest problems cited by the SEA-K clients were size of intial loans that is too small and short loan cycle. The UPLIFT clients on their part also identified the size of the initial loan that is too small as their greatest dislike.However, these clients do not really have a good understanding of the interest rate that they are paying.

Most of the exit clients made the decision on their own to leave the program and also stated that it was within their capacity to repay their loans. However, majority of the clients in both programs that were excluded from their groups was because of repayment problems.

Microfinance serves as an enabler because it provides the clients a steady source of working capital and also offers lower interest rates when compared to other MFI's in the study areas. On the contrary, small size of the loans, short loan cycles, very frequent group meetings, transaction cost for clients and inconvenient location for meetings were identified by clients in both programs as disabling factors.

In terms of governance, SEA-K has more personnel, serves more clients, has more resources and also has a stronger convergence framework when compared with the UPLIFT program. However, this does not necessarily translate into better service delivery to the clients.

9. Conclusion

The findings of this study and the review of literature illustrates that results of studies conducted in specific contexts does not cut across the board. This is because there are simply a large number of microfinance instutiions and literature to be studied before arriving at the conclusion that microfinance works in all circumstances. Hence, the contribution of microfinance to poverty reduction is mixed and caution must be exercised in generalizing from studies conducted in specific contexts. This illustrates that microfinance needs to be combined with other innovative programs to achieve greater results.

Loan terms and conditionalities are important determinants that affect the exit and retention of clients and are therefore the enabling and disabling factors that affects microfinance clients. Hence, size of loan, interest rates and length of loan repayments affects choice of microfinance clients and how they stay in the program.

In summary, the findings of this study has two major implications. On a positive note, microfinance helps in poverty reduction in some contexts. On the contrary, all microfinance and poverty reduction assessments have their limitations and as such no study has been able to succintly prove that microfinance has succeded in reducing poverty on a global scale.

10. Recommendations

Based on the findings of the study, the following recommendations are hereby put forward:

Controlling fraud, theft and internal governance concerns can be tackled by introducing incentive systems to motivate greater productivity among the personnel.

Steps should be taken to improve on coordination and complementarities among various levels of government, private sector and NGO's. The findings of the study shows that frequent changes in national and local leadership are impediments in sustaining microfinance and poverty reduction efforts.

There is also an urgent need to improve the local implementation and capacity-building processes. This means strengthening local institutions rather than creating new ones which would give the people a sense of ownership and also encourage more participation amongst locals.

Targeting and monitoring tools that takes into account the clients feedback is needed to properly identify who the poor are, where they are and the right measures to address their level of poverty. One way to do this is through poverty mapping by the Local Government Units. Another way to monitor the delivery of services to the clients is to come up with short exit surveys whereby MFI's can collect information from exit clients. This information will help gauge client satisfaction, assess their needs and possibly attract more clients.

The penalties on non repayment of loans should be reviewed by MFI's, as stiff penalties like banishing clients from future loans only heightens the poverty cycle. More measures should be put in place in group lending schemes to ensure that members who are better off help other members who are struggling to repay their loans in extreme cases .

Policy reforms that focus on interest rates reforms should also be pushed by the concerned stakeholders as this would create an environment that would allow and accomodate a wide range of MFI's to meet the diverse needs of their clients while also redefining the role of the state in microfinance cum poverty reduction programs.

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